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SUBJECT: REMITTANCES TO SENEGAL ARE AN ECONOMIC FORCE

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11. (U) SUMMARY: Formally recorded remittances to Senegal topped USD 800 million in 2006 and are undoubtedly higher this year. Informal money transfers are not quantified, but are also significant, perhaps equaling the formal flow. These funds are an important source of foreign currency and alleviate somewhat Senegal's balance of payments deficit. Most of these funds are sent to family members to help with basic living expenses or to contribute to investments in residential housing. The international network of traders and workers affiliated with Senegal's Muslim Mouride Brotherhood transfers tens of millions of dollars or more to their leaders in Touba as religious tithes. GOS policy to date has encouraged Senegalese to use formal banking and money transfer systems (and pay the associated high fees). To date, however, there has not been much movement to take advantage of these financial in-flows to create broader investment instruments. END SUMMARY.

#### THE SIGNIFICANCE OF REMITTANCES

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12. (U) Remittances back to Senegal from citizens living overseas (mostly in Europe, the U.S., the Middle East, and Gabon) are a major source of foreign currency, providing a counterweight on Senegal's balance of payments deficit. According to a recent report published by the GOS's Department of Forecasting and Economic Studies (DFES), remittances from expatriates reached USD 820 million in 2006 compared to USD 681.6 million in 2005, an increase of 17 percent. This upward trend will undoubtedly continue in 2007 and beyond. These transfers have contributed to lessen the deterioration of Senegal's current account deficit (9.5 percent of GDP in 2006 and 8.5 percent of GDP in 2007).

13. (U) The DFES report also noted that the majority of remittances are not formally recorded and that the official estimates likely capture only 50 percent of the actual volume. Actual remittances (formal and informal) are therefore likely well above USD 1 billion this year, the equivalent of half of Senegal's total planned revenue collection and equaling more than ten percent of GDP. In comparison, Senegal's FY 2007 investment/development budget to address poverty reduction and basic needs calls for spending approximately USD 764 million of GOS funds and an additional USD 512 million from donors.

#### WHERE DOES THE MONEY GO?

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14. (U) According to the report, remittances have become the highest legal source of external income for Senegal, and major source of income for a large percentage of Senegalese families and, though difficult to quantify, a major contributor to poverty reduction. In general, it is estimated that more than 40 percent of Senegalese households benefit from remittances. These contributions, often

sent in USD 100-150 increments on a monthly basis through services such as Western Union, are used to directly support households with daily consumer items, for health and education costs, accumulation of assets including property and livestock, and for housing construction. Senegalese living overseas also send cash, clothing, and documents through an informal network of "runners" in an apparent effort to avoid shipping, customs, and money transfer fees.

A relatively small percentage of family remittances go into formal bank accounts or investment funds. Some also provide family members in Senegal with bank cards that allow them to withdraw money from a foreign-based account.

15. (U) The source of the remittances is mostly from traders and small business people working in Europe and the U.S., many without legal status. However, a significant amount also comes from Senegalese with legal residence or dual citizenship, who continue to support family members in Senegal. Surprisingly, some Senegalese children who apply for immigrant visas do not appear to benefit educationally from these remittances. Many appear for their interviews unable to speak French, not having benefited from formal education as one might have otherwise expected. Perhaps the largest contributors to this phenomenon are members of Senegal's Muslim Mouride Brotherhood, who are well known as small traders operating abroad. The brotherhood has amassed considerable economic power through tithe-like remittances. In addition to supporting their families, Mourides are very faithful in sending money back to Touba (the "sacred" town of Mouridism) in the name of the Kalif. It is not possible to know the amount of money flowing back to the Mouride leadership, but it is likely more than USD 100 million per year.

16. (U) In Dakar and Touba the impact of remittances can be seen in new investments, particularly in residential construction in Dakar and improvements to the grand mosque and other Mouride institutions in Touba, a city that has grown much faster than national GDP over the last decade. Investments have pushed up the real estate values in Dakar as real estate "back home" has become one of the most attractive forms of investment for many overseas Senegalese. Other cities with high rates of remittances, such as Tambacounda, Matam,

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and Kedougou, do not appear to be benefiting as much, at least in terms of new construction or employment-generating activities. One commentator noted that remittances have encouraged "laziness" among recipient families who receive more from abroad than by working in the local economy.

#### THE GOS ROLE

17. (U) The GOS has highlighted the positive impact of remittances in its Poverty Reduction Strategy (PRSP) and has proposed strategies to further promote remittances by formalizing contact with Senegal's diaspora. For example, the GOS has been active in encouraging more flexible arrangements between banks and post offices and organizations such as the Western Union and Money Gram. At the same time, when the report was publicized, there was criticism of the government for "permitting" Western Union and banks to charge "outrageous" fees for money transfers. Some commentators called on the Government to establish a "solidarity bank" linking overseas Senegalese with family members at home to permit the establishment of joint accounts and cheaper transfer mechanisms.

18. (U) One area that is not yet being addressed is the potential role the microfinance institutions (MFIs) might play in banking remittances. Only two of Senegal's one hundred-plus MFIs are formally involved in the remittance market (UNACOIS and Djoloff Mutuel d'Epargne et de Credit) and the legal framework for microfinance institutions in the West African Monetary Union (WAEMU) does not facilitate MFIs access to the remittance market.

#### COMMENT

19. (U) While contributing to boosting family income and lessening poverty, the GOS needs to do more to enhance remittances' positive effects, by, for instance, encouraging investment instruments that can turn remittances into capital for new business ventures.

Furthermore, the government needs to create economic platforms that would encourage migrants to return to Senegal to set up Small and Medium Enterprises thus applying their foreign educations and skills at home.

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